EXHIBITS

1	Respo	nse of Jerry A. Ha	ausman to CITAC Study					
2	NAFT	A Remedy Recor	nmendation					
3	Rebar	Import Statistics	and Charts					
4	Sampl	e Rebar and Hot-	Rolled Bar Import Offers	and Sales Reports				
5	Exclus	sion Request Resp	ponse Letters					
	A	Republic						
	В	Timken						
	C	Steel of West V	irginia					
	D	North Star						
6	News	Articles						
	A		onal Optimism? Greensp 'Premature'," Wall St. Jo	an Calls Talk About a Looming urnal, Jan. 14, 2002.				
	В	B Norihiko Shirouzo, Gregory L White, and Joseph B. White, "Ford's Retrenchment Seeks to Cut Costs And Make Its Factories More Flexible," <i>Wall St. Journal</i> , Jan. 14, 2002.						
7	Repor	rts on Economic I	impact of Steel Production	n Facilities				
	A	[]				
	В	[]					

EXHIBIT 1

Critique of CITAC Study¹

Jerry A. Hausman
MacDonald Professor of Economics,
Massachusetts Institute of Technology
January 10, 2002

- The CITAC study makes a number of unrealistic assumptions that lead to its unbelievable conclusions. Most important of these assumptions is that U.S. domestic produced steel is not a good substitute for imported steel.
 - o In reality, U.S. steel provides an almost perfect substitute for foreign steel in all but a few minor applications. However, the reverse is not true that foreign steel can substitute for domestic steel in almost all applications, e.g. galvanized applications for automobiles.
 - The CITAC study makes the incorrect assumption that the degree of substitutability is constant and the same in both directions. The economic reality is that for significant price changes where the relative price of imported steel increases, domestic steel will replaces significant amounts of imported steel. The replacement percentage in the reverse direction if the price of domestic steel increases would be smaller.² The study also assumes a relatively low degree of substitution between foreign steel and U.S. steel overall.³

Since the CITAC study is not well documented and I have not had access to the model, this critique should be regarded as provisional.

In technical terms, the CITAC model assumption of a constant elasticity of substitution function is incorrect.

Using the results from Table 2 of the CITAC study the implied overall elasticity of substitution between domestic and imported steel is quite low. For an extremely large assumed change in relative prices between domestic and imported steel (approximately a factor of 50 times), the CITAC study estimates a relatively small change in consumption of domestic and foreign steel. This result is inconsistent with basic economic reality.

- Without this assumption the effect of steel tariffs on the U.S. economy would be minor. The CITAC study forecasts domestic steel prices would increase by only 0.2%-0.4% (Table 2)
 - O Since the cost of steel is typically not the major cost component the effect on prices would typically be small. Suppose that steel's cost share in a product is 20% and assume the price rise in steel is 0.3%. Then the price would increase by 0.2*.003 = .0006 or 0.06%.
 - O This minor price increase would have almost no effect on demand, especially since demand price elasticities for most goods that use steel are not particularly high. It is not high enough that domestic steel-consuming industries will be harmed significantly by foreign manufacturers that have access to cheaper steel. For instance, I calculate that the cost of a domestic automobile would increase by less than \$2 so that almost no change in price would occur. Even smaller cost and price increases for other steel using goods would occur. With these extremely small cost and price changes, virtually no effect on US steel consuming industry jobs would result.
 - Even for the price of imported steel to the extent that producers did not substitute to domestic steel, the CITAC study predicts increase of 9%-20% so that for a 20% cost share and a 15% steel price increase the cost and price increases would be approximately 3%. This amount is again quite small given the current state of the U.S. economy.
 - o Indeed, the CITAC study provides no evidence that even if domestic steel prices increased significantly in the range of 10%-20% that any harm would be done to the U.S. economy given the current state of the U.S. economy. The cost shares of steel in most products are low enough and

Particular assumptions of the CITAC model do not make economic sense. For instance, for automobiles the study assumes an elasticity of 5.0 between domestic and foreign automobiles. This assumption is much too high and is inconsistent with recent academic studies. It implies that if the price of U.S. automobiles and trucks increases by 10% the import share would increase from its current level of 22% to 30% immediately!

demand is not strong so that it is unlikely that any significant price increases would occur.

- The domestic industry has more than sufficient capacity to meet the increased demand for domestic steel so no shortages or allocations should result. The recent ITC Staff Report in the 201 proceeding had domestic capacity utilization at 86.1% in 2000.⁵
 - O The most recent data from AISI has 2001 capacity utilization through December 29, 2001 to be at 77.4%. Thus, the US industry has more than enough unused capacity to almost completely replace the current level of imported steel. The amount of unused capacity is approximately 28.2 million tons. This amount exceeds imports, which for 2001 are approximately 23.6 million tons.
 - Most forecasts of the recovery of the U.S. economy from the current recession predict a gradual recovery so shortages over the forecast horizon of three years should not develop.
 - o Thus, the very small forecast domestic price increases in the CITAC model will have at most minor effects on the U.S. economy as U.S. producers can shift their steel purchases to domestic steel to stop a price increase. This shift to the domestic industry is the intent of the 201 legislation.
- The CITAC study also assumes incorrectly that no substitution is possible for intermediate input goods. In reality, when the price of steel changes industries will shift to other inputs. The CITAC model assumption has been demonstrated to be incorrect by the responses to the energy shock of the 1970s and 1980s. This incorrect assumption leads to the large employment effects found by the CITAC model.

Investigation No. TA- 2-1-73, Vol. II, Staff Report, Overview p. 25.

Available at www.steel.org/stats/weekly. For the most recent period capacity utilization was 60.2%.

I realize that across all categories of steel complete replacement might not be possible in each product category. However, not all imported steel will stop with the imposition of tariffs.

The model assumes a Leontief technology.

- The CITAC study assumes a form of production technology that assumes that all inputs have equal cross price elasticities.⁹ Modern econometric studies since the 1970s have demonstrated numerous times that this assumption is incorrect.
- A recent study demonstrates that using flexible functional forms, instead of the highly restrictive function forms used in models like the CITAC model, have large and significant effects on the outputs of these models.¹⁰
- Conclusion: The CITAC model is not reliable to estimate the effects on the US economy of steel tariffs. The model makes a number of completely unrealistic assumptions that drive its results. However, using the model estimate of domestic steel price increases of 0.2%-0.4%, the proposed tariffs would have almost no effect on US jobs or economic output.

The model assumes a CES production technology. The assumption imposes equal elasticities of substitution across all inputs.

Ross R. McKitrick, "The Econometric Critique of Computable General Equilibrium Modeling: The Role of Functional Forms," *Economic Modeling* 15, 1998, pp. 543-573.

EXHIBIT 2

APPLICATION OF A SECTION 201 REMEDY TO IMPORTS OF HOT-ROLLED BAR AND COLD-FINISHED BAR FROM CANADA

ISSUE

- * The International Trade Commission found that imports from Canada were a substantial cause of serious injury to the U.S. hot-rolled bar and cold-finished bar industries.
- * Some members of the Coalition are concerned that, if Canada is excluded from the remedy, there could be a surge of imports from Canada that would replace imports from non-NAFTA countries. Other members of the Coalition are reluctant to impose the recommended remedy a tariff of 20% -- upon imports of hot-rolled and cold-finished bars from Canada.
- * USTR has raised the issue of whether application of a remedy to Canada will entitle Canada to immediate compensation, and if so, whether Canada could retaliate by imposing tariffs or other measures against non-steel articles imported from the United States.
- * USTR has asked the ITC for a specific finding of whether non-NAFTA imports alone were a cause of serious injury. If the ITC makes such a finding, the Minimill Coalition will have to decide whether it will request specifically that the President apply a remedy to Canada.
- * The following plan would allow the Coalition to recommend a remedy that would prevent surges in imports of hot-rolled bar and cold-finished bar from Canada without unduly restricting imports from Canada. Under this plan, the level of imports from Canada allowed would be greater than the level of imports in 2001, so that Canada would not be entitled to immediate compensation under NAFTA.

SUMMARY

- * The United States is permitted to apply a differential safeguards remedy to NAFTA countries.
- * Due to NAFTA requirements, the remedy should be a quota or a tariff rate quota (TRQ).
- * To prevent the requirement to provide compensation, the quota or TRQ should be set at the average level of Canadian imports since 1998, with an appropriate growth rate.
- * This would ensure that there is no post-remedy surge from Canada, such as that which occurred in Wire Rod, while avoiding the need to provide Canada with compensation.

APPLICATION OF A SECTION 201 REMEDY TO IMPORTS OF HOT-ROLLED BAR AND COLD-FINISHED BAR FROM CANADA

Under Article 802 of the North American Free Trade Agreement (NAFTA), the United States can take emergency safeguard action under Section 201 of the Trade Act of 1974 with respect to imports of hot-rolled bar and cold-finished bar from Canada. In addition to certain procedural requirements (which have been satisfied), any remedy must fulfill the condition that it not reduce imports below the trend of imports "over a recent representative period," with an allowance for reasonable growth. In addition, the United States must provide compensation to Canada, in the form of trade liberalizing measures, that have substantially equivalent trade effects or are equivalent to the value of the additional duties expected to result from the action.

Relief Should Be a Quota or Tariff Rate Quota

To ensure that any remedy not reduce imports from Canada below their recent levels, remedy should take the form of a quota or a tariff rate quota. Under Art. 802.5(b), any quota level must reflect "the trend of imports over a recent representative period." For example, from 1998 through the first half of 2001, total imports of hot-rolled bar from Canada were 3,855,107 tons. This is a monthly rate of 91,788 tons. On an annualized basis, imports from Canada averaged 1,101,459 tons during this period. Thus, the base amount for the quota portion of the tariff rate quota would be 1,101,459 tons. This is well above the level of actual Canadian exports to the United States in 2001.

NAFTA Art. 802 requires that any quota must allow for reasonable growth. Between 1998 and the first half of 2001 the average monthly import rate from Canada actually fell. Use of a growth rate of 0.5% would therefore represent a liberal provision for growth. Application of

this growth rate to the base amount of 1,101,459 tons would yield the quota amounts shown below. These amounts are significantly above the most recent level of imports from Canada.

RECOMMENDED QUOTAS ON IMPORTS FROM CANADA

Year	Quota Year 1	Quota Year 2	Quota Year 3	Quota Year 4
Hot-Rolled Bar	1,101,459	1,106,966	1,112,501	1,118,064
Cold-Finished Bar	76,003	76,383	76,765	77,149

To ensure that the remedy would be consistent with NAFTA, the remedy should take the form of either an absolute quota or a tariff rate quota, where imports from Canada up to the quota amount would be duty-free. Imports above that level would be subject to the maximum tariff rate allowed by law.

Compensation

Under NAFTA, Canada would be entitled to immediate compensation for any traderestricting measures the United States might take. However, a quota or tariff rate quota set at the levels described above would not result in any actual reductions of Canadian exports to the United States; to the contrary, the quota level would be above the most recent level of exports. Therefore, no compensation would be required.

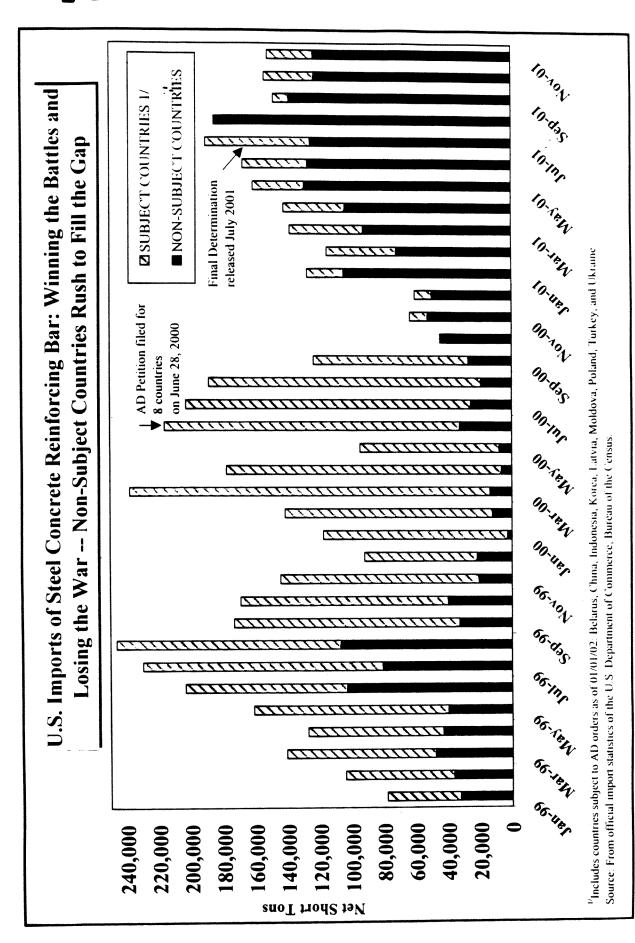
Differential Treatment of Canada is Permitted by the WTO

There is widespread agreement, including by the Government of Canada, that the United States could apply a differential remedy to Canada. The World Trade Organization's decision in United States Definitive Safeguard Measures on Imports of Circular Welded Carbon Quality

Line Pipe from Korea established that the United States could exclude Canada from measures taken under Section 201 against other, non-NAFTA countries. The dispute panel found in particular that GATT Art. XXIV allows the United States to apply differential treatment to other members of NAFTA.

1079014.3

EXHIBIT 3



U.S. Consumption Imports of Straight Length Steel Concrete Reinforcing Bars (2000, YTD 2001)

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4 133	1195	2.933	46.993	3,193	3,409	690'91	4,762	20,182	24,937	22,072	28,442	40,467	19,613	6,448	192,527	11.97"
,	Ļ	1577	179 296	12.562	17,084	16,042	12,193	25,588	20,806	29,237			20,212	28,598	189,844	1180°
		7.752	7,752	,	32,912	7,024	21,183	15,613	5,572		26,511		,	13,743	130,310	8 10".
		3 307	263,601	10,353	26,307	24,266	26,070	6,432	16,531	٠			,	,	116,265	723%
	1 801	24 865	39.7.66	44 630		11.155		2.592			2,288		,		85,530	5 12%
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				10,414		4,867	,					,		,	15,281	0.05%
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CZECH REPUBLIC

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MENICO **HURKLY** UNITED KINGBON

EL SALVADOR

CHINA

BELGIUM

CANADA

ARGENINA

SWILZERI AND

AUSTRIA UKKAINE BILLARUS

LATVIA IRINIAD & TOB IN IMINIC AN RIP SOUTH AFRICA

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v LKSION

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UNITED ARABEM

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OCTOBER 2001 IMPORTS

WILEY, PUBLIC VERSION 200, 2001

HTS CODE : 7214200000
OTHER BARS AND RODS IRON OR NONALLOY STEEL,
HOT-WORKED, CONCRETE REINFORCING BARS AND RODS

GENERAL QUANTITIES IN TONS

		•	GENERAL GOAR!!!!!	ES IN TUNS			
COUNTRY	1998 ANNUAL	1999 ANNUAL	2000 ANNUAL	2000 YTD	2001 YTD	2000 OCTOBER	2001 OCTOBER
JAPAN	66,341	231,985	25,355	7E 7EE	700 700	• • • • • • • • • • • • • • • • • • • •	• • • • • • • • • • • • • • • • • •
MEXICO	83,320	107,302	46,993	25,355	300,320	0	50,832
TURKEY	8,509	41,924	179,296	38,429	183,115	4,133	19,613
SOUTH KOREA	527,080	423,893	263,602	160,516	164,799	0	20,212
ITALY	J2., J00	423,075		260, 295	118,469	0	ā
CZECH REPUBLIC	ň	ŏ	7,752	Ü	108,510	0	o .
MALAYSIA	ň	00	Ų	0	101,979	0	a l
GERMANY	265	102	24 274	0	85,903	0	22,992
SPAIN	11,030	102	24,276 29,756	24,276	74,186	16,509	5,8 86
RUSSIA	19,122	48,102	27,730	0	58,432	0	0
VENEZUELA	22,168		35,378	25,562	44,062	7,590	2,033
SINGAPORE	22,100	49,730	29,902	10,804	42,639	10,804	3,395
BRAZIL	9	11,063	20 524	0	29,599	. 0	, , , ,
EGYPT	9	71,168	29,581	29,581	29,246	0	ō
POLAND	53,231	10 491	(0.202		28,231	0	0
ROMANIA	73,431	10,681	69,292	69,278	26,884	0	o a
	4,792	ŭ	4,182	Ō	21,881	0	o o
FRANCE LUXEMBOURG	0	ŭ	U	Q	15,703	0	a ®
	285	7.0	45 74	0	15,281	0	3
TAIWAN		342	15,717	5,033	10,904	4,990	10,904
LATVIA	97,002	303,997	207,705	207,705	10,866	0	10,866
TRINIDAD & TOB.	Ŏ	497	11	11	10,147	0	, a
BULGARIA	ň	Ď	Ů,	Q	7,089	0	o a
DOMINICAN REPUB	5 (5)	27 270		Ō	6,182	0	6,089
SOUTH AFRICA	5,65 <u>6</u>	23,270	6,122	0	4,451	0	. 0
THAILAND	Ų	Ų	5,112	1,265	3,827	0	0
ARGENTINA	·	2 22		0	3,364	0	• 0
CANADA	754	2,983	1,791	1,728	1,371	71	98
BELGIUM	ŭ	Q	0	0	1,007	0	0
EL SALVADOR	0	0	1,740	461	108	461	0
CHINA		17,547	163,124	163,015	47	0	0
UNITED KINGDOM	11,346	338	.0	_0	22	0	0
SWITZERLAND	1,201	59	21	21	18	0	18
AUSTRIA	34	37,964	4,646	4,646	0	12	0
BYELARUS	8,592	71,370	24,614	24,614	0	0	0
UKRAINE	797	95,904	168,054	168,054	0	0	0
MOLDOVA	187,271	183,803	181,492	181,492	0	0	0
UNITED ARAB EM.	0	202	243	243	0	0	0
INDONESIA	44,504	69,261	0	0	0	0	0
ALL COUNTRIES	1,153,300	1,803,487	1,525, <i>7</i> 57	1,402,384	1,508,642	44,570	153,938

SOURCE: U.S. DEPARTMENT OF COMMERCE, BUREAU OF THE CENSUS IMPORT STATISTICS TABLE by TRADE INFLO, 7311-X GROVE ROAD, FREDERICK, MD 21704, (301) 831-4150

1

HTS CODE : 7214200000 OTHER BARS AND RODS IRON OR NONALLOY STEEL, HOT-WORKED, CONCRETE REINFORCING BARS AND RODS

PUBLIC VERSION

AVERAGE GENERAL UNIT CIF VALUE

		·	TERROL GENERAL UN	I CIF VALUE			
COUNTRY	1998 ANNUAL	1999 ANNUAL	2000 ANNUAL	2000 YTD	2001 YTD	2000 CCTOBER	2001 OCTOBER
UNITED KINGDOM	254.49	223.17	0.00	0.00	1 70/ 70		• • • • • • • • • • • • • • • • • • • •
EL SALVADOR	0.00	0.00	402.55	338.95	1,304.39	_0.00	0.0 0
SWITZERLAND	254.72	1,120.72	1,084.52	1,084.52	1,000.86 982.26	. 338.95	0.00
BELGIUM	0.00	0.00	0.00	0.00	802.61	0.00	982 . 26
CHINA	0.00	187.45	218.58	218.50	002.01	0.00	0.00
BULGARIA	0.00	0.00	0.00	0.00	484.81 472.50	0.00	0.0 a
CANADA	502.05	434.49	479.69	484.72	460.42		_ 0.00
ROMANIA	268.20	0.00	211.94	0.00	283.96		380.94
GERMANY	830.39	742.39	377.07	377.07	250.90	0.00 20 8 .0 5	0.00
DOMINICAN REPUB	0.00	0.00	0.00	0.00	250.85 244.73	0.00	189.60
VENEZUELA	223.36	213.07	221.97	222.80	239.19	222.80	244.65 215.75
TRINIDAD & TOB.		256.11	362.33	362.33	230.14	0.00	
TAIWAN	51 3. 77	334.65	248.33	243.50	230.03	243.22	0.00 230.0 3
EGYPT	0.00	0.00	0.00	0.00	229.55		0.00
MEXICO	270.45	255.34	258.49	260.11	228.32	271.31	225.01
SINGAPORE SOUTH AFRICA	0.00	184.39	0.00	0.00	228.32 228.09	0.00	0.00
	221.81	195.65	216.08	0.00	227.93	0.00	0.00
FRANCE	0.00	0.00	0.00	0.00	221.22	0.00	0.00
CZECH REPUBLIC	0.00	0.00	0.00	0.00	221.22 220.69	0.00	0.00
THAILAND	0.00	0.00	234.09	239.55	220 AR	0.00	0.00
ITALY	0.00	0.00	226.69	0.00	219.87	0.00	0.00
SOUTH KOREA	256.19	204.22	210.24	209.81	217.22	0.00	0.00
SPAIN	226.15	0.00	251.31		218.57	0.00	0.00
POLAND	275.23	187.74	198.01		218.01	0.00	0.00
JAPAN	218.42	210.78	218.98	218.98	217.13	0.00	210.87
LUXEMBOURG	0.00	0.00	0.00	0.00	215.55	0.00	0.00
MALAYSIA	0.00	0.00	0.00	0.00	215.55	0.00	218.1 3
BRAZIL	0.00	199.48	212.88	212.88	209.91		0.0 0
RUSSIA	231.88	177.35	178.47	177.07	204.19		219.54
LATVIA	341.65	193.66	198.49	198.49	201.31		201.31
TURKEY	232.08	184.86	211.90		200.99 178.41	0.00	196.35
ARGENTINA	0.00	0.00	0.00	0.00	1/8.41		0.00
AUSTRIA	1,241.01 285.75	173.97	190.2 3 178.27	190.23	0.00	276.03	0.00
BYELARUS	203./3	199.02 187.92	197.46	178.27	0.00	0.00	0.00
UKRAINE	245.60 304.15	214.15	208.25	197.46	0.00	0.00	0.0 0
MOLDOVA				208.25	0.00	0.00	0.00
UNITED ARAB EM.	0.00	336.79 246.18	2 82.42 0.00	282.42	0.00	0.00	0.00
INDONESIA	212.70	240.10	0.00	0.00	0.00	0.00	0.00
ALL COUNTRIES	268.18	206.14	212.73	211.29	222.56	213.91	213.34

SOURCE: U.S. DEPARTMENT OF COMMERCE, BUREAU OF THE CENSUS IMPORT STATISTICS TABLE by TRADE INFLO, 7311-X GROVE ROAD, FREDERICK, MD 21704, (301) 831-4150

EXHIBIT 4

PAGES NOT SUSCEPTIBLE TO PUBLIC SUMMARIZATION

EXHIBIT 5A



January 11, 2002

Mr. Alan Price Wiley, Rein & Fielding LLP 1776 K Street, NW Washington, DC 20006

Dear Alan:

In response to exclusion requests made by the representatives, this letter provides additional information in support of my letters dated November 12, 2001 and December 5, 2001.

NTN USA

- 1. Bearing Quality Bar per ASTM A-534 We require the NTN specification in order to formally respond, but expect that Republic can produce.
- 2. SAE 52100 Spherodized Annealed Wire Rod Republic can produce per my response to INA USA and others in my letter dated December 5, 2001.
- 3. SAE 52100 Hot Rolled Wire Rod Republic can produce per my response to INA USA and others in my letter dated December 5, 2001.
- 4. Hot Rolled Round Bar (SAE 1053 and 1040) Republic can produce. [
- 5. SBM40 We require the NTN specification in order to formally respond, but expect that Republic can produce.

NSK Corporation – Ball Bearing Steel - Republic can produce per my response to INA USA and others in my letter dated December 5, 2001.

Ferrostaal – Republic and Timken can both produce, and we object to this request per my response to Corus and Thyssen in my letter dated December 5, 2001.

Please advise if I may be of any further assistance.

Sincerely,

J. T. Thielens
Vice President – Marketing

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EXHIBIT 5B

MEMO

TIMKEN

Carl J. Dorsch
Manager-Tool Steels Product Metallurgy

WORLDWIDE LEADER IN BEARINGS AND STEEL

January 14, 2002

PUBLIC VERSION

TO: Timothy Brightbill

cc e-mail: Michael Haidet, Rick Brown, Scott Balliett, Tim Wise

SUBJECT: Response to International Mold Steels Exclusion Requests.

Mr. Brightbill:

I have reviewed the information recently supplied by International Mold Steels (IMS). Here are my comments regarding each grade.

NAK 55: A. Finkl and Sons Co.(2011 Southport Avenue, Chicago, IL) is a domestic manufacturer of tool steels, and manufactures a duplicate of NAK 55. A. Finkl and Sons calls the steel RA40. Timken Latrobe Steel (TLS) would manufacture this grade if pricing allowed a reasonable return on investment.

NAK 80: TLS would manufacture this grade if pricing allowed a reasonable return on investment.

PX5: This is a modified P20 mold steel. The chemical composition is just marginally out of the ASTM chemistry specification range for P20 mold steel. Crucible Materials Corp, A. Finkl and Sons Co., and Ellwood City Forge have made various modifications of P20 steel over the last 20 years. TLS could manufacture this grade if pricing allowed a reasonable return on investment.

Porcerax II: Is a porous powder metal mold steel. TLS could not manufacture this. Domestically, only Crucible Materials Corp. or Carpenter could manufacture this grade..

DH2F: This steel directly competes with Timken Latrobe Steel Viscount 44, which is resulfurized, prehardened H13. IMS markets DH2F as a prehardened H11, but the chemical composition does not fall within the limits for ASTM H11. IMS lists the nominal vanadium content in the supplied document as 0.80 wt. %. This value is the low limit of the vanadium range for ASTM H13 steel. The ASTM vanadium range for H11 is 0.30 to 0.60, so DH2F is clearly not H11.



Page 2

CX1: TLS could manufacture this grade if pricing allowed a reasonable return on investment.

DC53: TLS has manufactured this grade for several years now, and continues to manufacture and sell this grade..

DH31-S TLS would manufacture this grade if pricing allowed a reasonable return on investment.

NAK HH: TLS would manufacture this grade if pricing allowed a reasonable return on investment.

The general comments from Arent Fox Kintner Plotkin & Kahn, PLLC note that IMS emphasizes that the nominal chemical compositions of the subject mold and die steels are not the critical attributes of the steels for which they are seeking exclusion. Specifically, they claim that the mechanical and physical performances of the products are critical. In stating this they imply that the domestic manufacturers are not capable of manufacturing these steels to the same quality and performance levels.

It should be noted that the domestic steel manufacturers produce mold and die steels which exhibit the same types of critical strength, toughness, and polishability requirements which are implied by the IMS (Arent Fox) comments. In addition the domestic steel manufactures, and in particular, Timken Latrobe Steel, routinely manufacture very high quality steels which are used in flight-critical applications in the domestic commercial and defense aerospace industries. Thus, the issue of the ability of the domestic steel producers to manufacture the subject steels to the required quality levels is not in question. The domestic manufacturers are quite capable of meeting or exceeding the quality levels and performance characteristics required for the subject mold and die steels.

Carl J. Dorsch Manager-Tool Steels Product Metallurgy

EXHIBIT 5C



January 14, 2002

SWVA, INC. a subsidiary of STEEL OF WEST VIRGINIA, INC.

Gloria Blue, Executive Secretary Trade Policy Staff Committee Office of the U.S. Trade Representative 600 17th Street, NW Washington, DC 20508

Dear Ms. Blue:

I am writing in response to the submission made by Caterpillar Inc. on January 4, 2002, regarding the U.S. International Trade Commission's recommended remedy in the Section 201 steel safeguard investigation. We wish to rebut certain comments made by Caterpillar, regarding our objection to its track bar exclusion request.

Caterpillar, which used to purchase track bar from us, seriously mischaracterizes the circumstances leading to its decision to switch to a foreign supplier. Caterpillar insinuates that we are incapable of meeting its track bar supply requirements, suggesting that it "worked with" us for five years, and that our product was "chronically unacceptable." While it is true that Caterpillar stopped purchasing track bar from us, it was clearly due to low import prices, not any inadequacy of our product. Steel of West Virginia was a certified track bar supplier to Caterpillar, having passed their certification program. You cannot be certified by Caterpillar and have "chronically unacceptable" quality problems.

We have supplied other customers with track bars and have received glowing quality ratings. We produce complicated parts for O.E.M.'s and serve as the sole source for many of these manufacturers. We became ISO 9002 certified in May 2000 and have passed all of our subsequent independent audits. Further, there is simply no justification for Caterpillar's claim that because our "assets are the same, there is no reason to expect better quality." We have spent millions of dollars on capital improvements, and Caterpillar knows this. Caterpillar itself continues to purchase our products, which it would not do if we truly made low-quality products.

As we explained in our submission of December 3, 2001, Caterpillar ended our relationship solely because Corus (then called British Steel) offered a savings package program that made its products available at a cheaper overall rate. The quality of our track bar had nothing to do with this decision, as Caterpillar made clear at that time.

Sincerely,

Timothy R. Duke

Steel of West Virginia, Inc.

President & CEO

Phone: (304) 696-8200 Phone: (800) 624-3492 Fax: (304) 529-1479 Next Day Mail: 17th St. & 2nd Ave., Huntington, West Virginia 25703 Mailing Address: P.O. Box 2547, Huntington, West Virginia 25726-2547

E Mail Address: steel@swvainc.com

EXHIBIT 5D

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EXHIBIT 6A

WO THE

January 14, 2002

Economy

PUBLIC VERSION

Irrational Optimism? Greenspan Calls Talk About a Looming U.S. Recovery 'Premature'

Federal Reserve Chief Sees Signs of Economy Stabilizing But Says Risks Remain; Speech May Portend a Rate Cut

By GREG IP

Staff Reporter of THE WALL STREET JOURNAL

WASHINGTON -- In his first speech on the economy in months, Federal Reserve Chairman Alan Greenspan sounded considerably more cautious about recovery prospects than have private forecasters and even fellow Fed policy makers.

The economy shows signs of stabilizing but still faces significant risks before a sustainable recovery can begin, the central-bank chief said in San Francisco on Friday. The downbeat assessment suggests interest rates could remain at their low levels for a while rather than rising by June, as investors had expected. It also raises the odds the Fed will cut interest rates for a 12th time since January 2001 at its meeting on Jan. 29-30 -- though a rate cut is by no means certain.



"Despite a number of encouraging signs of stabilization, it is still premature to conclude that the forces restraining economic activity here and abroad have abated enough to allow a steady recovery to take hold," Mr. Greenspan said. "Recent signals about the current course of the economy have turned from unremittingly negative ... to a far more mixed set of signals recently. But I would emphasize that we continue to face significant risks in the near term." Profits and business investment remain weak, and household spending could be damped by the recent rise in mortgage rates, possible increases in unemployment and the lingering effects of steep declines in stock wealth, he said.

Alan Greenspan

Hopes of recovery have soared recently, thanks to such upbeat signals as a pickup in manufacturing orders and strong house and car sales. Those signs also sent long-term bond yields climbing sharply as investors concluded that the Fed,

which slashed its target for the federal-funds rate to a 40-year low of 1.75% in December from 6.5% a year earlier, probably was finished easing and would start raising rates by June. The federal-funds rate is the interest charged for overnight loans between banks.

But Mr. Greenspan appeared concerned that much of the improvement resulted from temporary factors. The incentives that boosted car sales since have been scaled back; low mortgage rates that propelled housing purchases and refinancings have climbed along with bond yields; and low energy prices, which boosted purchasing power, have stopped falling. He acknowledged production is likely to be boosted soon by businesses rebuilding inventories, but "that impetus to activity will be short-lived unless the demand for goods and services itself starts to rise." Morgan Stanley economist Ted Wieseman said Mr. Greenspan seems worried about a possible "double-dip" recession: an upturn in the current quarter led by inventory rebuilding followed by another downturn in the next.

Mr. Greenspan cited deep-seated factors that could depress spending. The diminishing effect on household spending from the slump in stock prices, despite a recent rally, has "not as yet fully played out," while capital spending is constrained by profit margins that are "still under pressure," he said.

Those comments echoed his reference in the early 1990s to the "head winds" of fragile banks and heavy debt loads that produced the unusually weak recovery from the 1990-91 recession. Because of those head winds, the Fed kept cutting rates for more than a year after the recession ended, and didn't raise them again until 1994. Fed officials appear to think the coming recovery also will be muted, and inflation pressures will remain negligible.

On Friday, the Labor Department reported that producer prices plunged 0.7% in December from November, mostly thanks to sharply lower energy costs. But even excluding food and energy, prices were down 0.1%. For 2001 as a whole, finished-goods prices fell 1.8%, the sharpest drop since 1986.

Analysts said Fed officials' comments indicate rates aren't going to rise as soon as investors expect, and that the officials may be trying to "jawbone" bond yields lower. It is less clear if they have settled on another cut at the end of this month. After Mr. Greenspan's speech, futures markets lifted the odds of a quarter-point cut on Jan. 30 to 60% from 25%.

But if Mr. Greenspan pushes for a cut, he may face resistance from some presidents of regional Fed banks who already were uncomfortable with how low rates dropped during the fall. When the Fed cut rates half a percentage point at its Nov. 6 meeting, four of the 12 regional banks' boards had voted for no cut and seven voted for only a quarter-point cut, minutes to Federal Reserve Board meetings show. Only five banks voted for the quarter-point cut implemented Dec. 11. Since then, the economic picture has brightened considerably, so reluctance to cut further may well have grown. On the other hand, one likely advocate of restraint, Laurence Meyer, a Fed governor who is an inflation hawk, won't be at the meeting because his term is ending.

Despite near-term clouds, Mr. Greenspan remains optimistic that over the long term the economy can grow much faster than in the decades before 1995 thanks to the application of new productivity-boosting technologies. Many economists, including some at the Fed, recently have marked down their views of potential growth because of the slump in technology spending and revisions to economic data in the late 1990s.

"Until last year, the hypothesis of an accelerated productivity trend had not been tested in the contracting phase of a business cycle," Mr. Greenspan said. "Recent developments have provided that test, and the early returns certainly look favorable to the hypothesis."

Write to Greg Ip at greg.ip@wsj.com⁷

INDICATOR	PERIOD COVERED	SCHEDULED RELEASE	PREVIOUS ACTUAL	CONSENSUS GLOBAL FORECAST
Retail Sales	December	Tuesday	-3.7%	-1.4%
Excl. Cars	December	Tuesday	-0.5%	0.0%
Business Inventories	November	Wednesday	-1.4%	-0.8%
Inventories				

CPI	December	Wednesday	0.0%	-0.1%
Excl. Food and Energy	December	Wednesday	+0.4%	+0.2%
Industrial Production	December	Wednesday	-0.3%	0.0%
Capacity Utilization	December	Wednesday	74.7	74.6
Jobless Claims	Week of 1/12	Thursday	395,000	440,000
Housing Starts	December	Thursday	1.65 million	1.60 million
Building Permits	December	Thursday	1.60 million	1.55 million
Michigan Sentiment	January	Friday	88.8	89.0

Source: Thomson Financial/IFR

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EXHIBIT 6B



January 14, 2002

Page One Feature

PUBLIC VERSION

Ford's Retrenchment Seeks to Cut Costs And Make Its Factories More Flexible

By NORIHIKO SHIROUZU, GREGORY L. WHITE and JOSEPH B. WHITE Staff Reporters of The Wall Street Journal

Ford Motor Co.'s tumble from the top of the auto industry has shocked employees and rivals alike. But the surprise isn't only over how hard Ford has fallen but also how fast and in how many ways.

Ford's retrenchment over the next five years, unveiled Friday, will involve closing five North American plants and eliminating a total of about 17,000 additional jobs world-wide on top of about 18,000 cut since January 2001. The huge retreat is more than a response to the auto industry's chronic overcapacity or the costly Firestone tire scandal, although those are both important factors. Ford's crackup also illustrates how fast corporate strategies can come unraveled in a world where technology, consumer taste and financial markets are all changing at unprecedented speed.

"For most of the last decade, Ford Motor Co. was on a roll," Chairman William Clay Ford Jr. said Friday. "But the auto industry is fiercely competitive and things can change very quickly."

Take, for example, an item buried deep in Ford's sweeping restructuring announcement last Friday: A \$1 billion pretax charge to write down the value of its stockpiles of precious metals used mainly in exhaust-scrubbing catalytic converters.

To meet tighter emissions standards during the 1990s, Ford and other auto makers added more platinum-group metals -- chiefly palladium -- to their catalytic converters. Amid huge spikes in prices and periodic disruptions in supplies of the metals -- politically volatile Russia is one of the two main platinum-group producers -- Ford built up stockpiles and stepped up research on ways to reduce the for them.

From Cash Cushion to Cash Crunch

Ford's naming of Jacques Nasser as CEO to Friday's announcement of a \$4.1 billion restructuring charge and the cutting of 35,000 jobs at the No. 2 auto maker.

Late last year, Ford officials said, those efforts paid off in a new technology that means Ford doesn't need as much of the metals as expected. That was good news. The bad news: "We've ended up with an excess of precious metals." said Martin Inglis, chief financial officer. In addition, prices for the platinum group have dropped over the last year or so, meaning the massive stockpile is worth far less than Ford had expected.

A silver lining is that writing down the value of the holdings means Ford will save on paper about \$500 million in annual materials costs this coming year, a big chunk of its \$3 billion savings goal. That's because part of the cost of the precious metals used in vehicles this year was booked as a one-time expense for 2001.

How Ford placed such a bad bet on clean-air technology isn't clear. A person familiar with the situation

http://interactive.wsj.com/archive/retrieve.cgi?id=SB1010758959555716440.djm&template... 1/14/2002

said Ford didn't adequately hedge its bet that precious-metals prices would stay high. **General Motors** Corp. began a major push in the late 1990s to reduce its use of platinum-group metals and to use financial derivatives to hedge the risks on those it does buy. GM officials were surprised by Ford's announcement Friday. "We do not have that issue," said a spokeswoman.

The precious-metals misstep is just one element of a \$4.1 billion after-tax charge Ford will take when it reports fourth-quarter results on Thursday. That enormous charge represents mostly noncash costs for a series of actions, including writing off the value of factories Ford doesn't need and other losses. Ford will stop making four models, the Lincoln Continental, Mercury Villager, Mercury Cougar and Ford Escort.

As far-reaching as Ford's plans are for making its factories more flexible and its cost structure leaner, most elements of Ford's new back-to-basics strategy are virtually identical to strategies already being pursued by Ford's rivals, including GM, **DaimlerChrysler** AG, **Toyota Motor** Corp. and **Honda Motor** Co.

GM, for example, is cutting jobs at roughly the same pace with a combination of buyouts and attrition and, after a decade of slashing costs, is accelerating its drive to eliminate waste. "There's nothing that's being left alone," said John Devine, a former Ford CFO who took over as GM's finance chief last year, told securities analysts last week. "This is going to be business as usual for as far into the future as we can see."

Ford now appears to be in a position similar to GM's in the early 1990s, when the No. 1 auto maker emerged from a period of financial and managerial chaos to discover itself years behind the industry's best in efficiency and product design. It has taken GM a decade of restructuring to pass Ford, though it still trails Toyota and Honda.

Mr. Ford, 44, took the CEO post of his family-controlled company in October after the ouster of Jacques Nasser. On Thursday, during a meeting with top managers, tears welled up in Mr. Ford's eyes as he called on managers to combine forces to make Ford a strong company again, according to an executive who was there.

In Friday's public announcement, Mr. Ford apologized to employees for the pain the restructuring plan would cause. He presented a frank recitation of the company's recent missteps, many of which he presided over as chairman of the board since January 1999. "We also pursued strategies that were either poorly conceived or poorly timed," he said in a speech broadcast live on Detroit local television. "We strayed from what got us to the top of the mountain, and it cost us greatly."

Rapid change derailed Ford in many critical ways. But failures to recognize shifts in three areas contributed heavily to the company's 2001 losses, and represent the core of what needs to be fixed over the next five years: manufacturing, finance and product strategy.

The Factories

During the 1990s, Ford was the leader in quality and manufacturing efficiency among Detroit's Big Three. Ford's most efficient plants were those such as the Taurus factory in Atlanta that cranked out high

²See a chart of some of the largest job cuts announced by U.S. companies since the start of 2001. * * * ³Ford, GM Take Different Routes ⁴Ford Overhaul Could Cost up to \$4 Billion (Jan. 10) ⁵Auto Makers Expect Slower Sales (Jan. 7) ⁶U.S. Car, Truck Sales Eased in December (Jan. 4)

volumes of one vehicle.

PUBLIC VERSION



Locations of the factories Ford plans to close

But that kind of efficiency isn't good enough any more, as Ford executives acknowledge. Ford North America now is racing to catch up with Japanese auto makers, GM and Ford's own European operations, to redesign plants so that assembly tools and processes allow for production of two or three different sizes and shapes of cars in one plant, with changes from one model to another doable over a weekend if necessary.

Flexible factories have been the holy grail for auto makers for years. As consumer tastes have become more fickle, the window during which a new model could earn top dollar before competition catches up has gotten smaller. Japanese auto makers, led by Honda and

Toyota, designed their factories and their vehicles so that the expensive equipment that welds together steel car bodies can be reused, even on redesigned models. That flexibility also made it possible to avoid lengthy and costly shutdowns for retooling to build a new vehicle.

But Ford's North American operations for much of the 1990s had a different problem: keeping pace with demand for hot-sellers such as the Explorer, the F-series pickup truck and the big Expedition and Navigator SUVs. Ford's high scores for efficiency resulted mainly from a strategy of running conventional mass-production plants on overtime. There was little incentive to risk disrupting that strategy.

Now, Ford is racing to catch up. The company's European operations, which hit a financial crisis in the late 1990s, are now ahead of North America in shifting to more-flexible, leaner production methods.

By 2003, Ford of Europe will be able to mix medium-size, compact and subcompact models in any one plant, says David Thursfield, head of Ford of Europe. As the new flexible systems are installed, shifting a plant to a new model "is a software change," he says.

Ford Chief Operating Officer Nick Scheele said last week that Ford's North American operations have enough capacity to build 5.7 million vehicles a year. The cutbacks announced Friday eventually will reduce that to 4.8 million vehicles, he said. Mr. Thursfield suggests Ford's overcapacity problem is even worse if you look at the state of the art in factory technology. He believes Ford's current North American capacity is eight million vehicles, meaning once the plants get more flexible, more cuts will come. "We've got to sweat the assets," he says.

Even more critical are Ford's efforts to catch up on quality. Ford once led GM in quality measures, enjoying an advantage in consumer preference and outlays for warranty repairs and recalls. But last year, Ford ranked seventh in quality among the major automotive players in the U.S.

Fixing quality is a primary goal for Ford's new North American operations chief, James Padilla. On a recent tour of Ford's sprawling

small-car assembly plant in Wayne, Mich., Mr. Padilla stopped in a room where the walls are covered

Until recently, Ford was the darling in Detroit and General Motors the laggard. Now the roles appear to be reversing. Net income in billions of dollars: 53 General Motors Ford 1 Q 1Q 2Q 3Q 4Q 1Q 2Q 3Q 4Q 1Q 2Q 3Q 4Q 2000 2001 Note: Figures for fourth quarter 2001 based on company forecasts; all figures exclude charges Source: the companies

with charts that detail different problems with Ford Focus models assembled there.

End of the Lines

Ford on Friday announced it would close several plants and cut 35,000 jobs world-wide. A look at the plants:

Edison, N.J. 2000 year-end employees: 1,420 hourly and 150 salaried Products: Ford Ranger,

Mazda B-series Year opened: 1948 Plant size: 1.4 million

square feet

2001 production: 134,901

units

Expected close: By 2004

Oakville, Ontario 2000 year-end

employees: 1,303 hourly and 108 salaried

Products: Ford F-150 and other F-series pickup

trucks

Year opened: 1965 Plant size: 3 million sq. ft. 2000 production: 111,290

units

Expected close: By 2004

Brook Park, Ohio 2000 year-end

employees: 100 hourly and 22 salaried Products: Aluminum cylinder blocks Year opened: 2000

Plant size: 210,000 sq. ft. **2000 production:** 7,508

units

Expected close: By 2003

or 2004

Dearborn, Mich. 2000 year-end

employees: 80 hourly and

nine salaried

Products: Connecting rods and rod cap forgings Year opened: 1965
Plant size: 60,034 sq. ft.

2000 production: 8.2 million forgings

The Focus is a big success in Europe, but the Focus got off to a rough start in the U.S. market because of recalls and quality problems early in its production launch. Eradicating bugs that get the Focus marked down in widely publicized quality surveys like the J.D. Power Initial Quality Study or Consumer Reports' new-car reviews requires excruciating attention to detail.

To diagnose the cause of squealing brakes on some Focus cars, the Wayne plant called on Aindrea McKelvey Campbell, a Ph.D. in the materials science department at Ford's research labs. Noisy brakes accounted for 57% of all brake-system-warranty claims. "That's all that keeps us from being best in class," says Marty Aschoff, Wayne Assembly's quality-control manager for vehicle operations.

After a four-month analysis, Ms. Campbell concluded that the problem was the fault of an improperly tightened bolt that attached a cable to the parking-brake handle. The solution: Substitute a "whiz nut" with a serrated flange for the original nut and bolt.

Ford's ability to cut costs and increase productivity in North America will depend a great deal on the collaboration and goodwill of its labor unions. And right now, labor-management relations at Ford are strained.

Last Thursday, Ford began setting up large-screen TV sets on the shop floor of its Hazelwood, Mo., assembly plant. Jerry Foster, president of the UAW Local Union 325 that represents hourly workers at the plant, thought management was setting up for a town-hall meeting. The plant, which makes the Ford Explorer and the Mercury Mountaineer, had just received a new product to produce, the Lincoln Aviator SUV.

Shortly before 8 a.m. Friday, management shut down the plant and workers gathered before the TV sets. "It was a total shock to us all," said Mr. Foster, when workers heard Mr. Ford and Mr. Padilla announce that the plant is going to be closed by mid-decade. Some began crying, he said. Others just walked out of the building.

"We don't know how we are going to fight it," Mr. Foster said. "But we don't consider this is a done deal."

Finance

Another costly lesson for Ford was that businesses that look richly profitable don't always stay that way when they expand.

Lured by profit margins often double what it earned in the core auto business, Ford in the late 1990s pushed its finance unit, Ford Credit, to expand quickly. But with Ford's share of the vehicle market shrinking, that meant underwriting loans not just for Ford's own vehicles but also for used cars, other brands and customers with less-than-perfect credit.

Expected close: As soon as possible

Hazelwood, Mo. 2000 year-end

employees: 2,377 hourly and 236 salaried

Products: Ford Explorer, Mercury Mountaineer Year opened: 1948 Plant size: 3.1 million sq.

2000 production: 247,277

units

Expected close: Date to be determined

Source: the company

For several years, the strategy delivered a steady string of record earnings as the unit expanded its portfolio. Some of the gains, particularly in the last year, came as Ford repackaged its loans into securities for sale, forgoing the future income. But as it drove for those rich returns and rapid growth, Ford appears to have underestimated the risks of "buying deep," as lending to less-creditworthy customers is known in the business.

The economic slowdown, particularly after Sept. 11, exposed the weakness of Ford's strategy, which analysts say involved charging risky borrowers toolow rates and not setting aside enough money for bad loans. In December, Ford announced that adding to its reserves for bad loans would widen the company's fourth-quarter loss before restructuring charges to about \$900 million. Within a week, Don Winkler, the former Citigroup executive Mr. Nasser had hired to take charge of Ford Credit's growth strategy, resigned.

On Friday, Ford officials said the company is abandoning the strategy of becoming a "global auto-finance superpower" to concentrate on lending for Ford's own vehicles. Ford also said it will inject \$700 million and forgo its share of the unit's fourth-quarter profits to shore up Ford Credit's balance sheet.

In addition, Ford signaled that it plans to get tougher on delinquent customers. Among Ford Credit's new goals: "Enhance collection tools."

Ford also is hastily pulling out of a series of ventures started under Mr. Nasser that aimed to take the auto maker into higher-margin businesses beyond just making cars.

Among the prime candidates is Kwik-Fit, a British chain of auto-repair shops Ford bought in 1999 for about \$1.6 billion. Kwik-Fit was the centerpiece of Mr. Nasser's strategy to expand into areas like service and "recycling" -- junkyards, actually -- where margins were higher. But making once-entrepreneurial businesses work inside a giant corporation turned out to be harder than expected.

Friday, Ford said asset sales will bring in \$1 billion this year, although officials declined to say how much of a loss Ford will take on this corporate fire sale.

Ford needs the cash. Though it was sitting on a cash hoard of \$26 billion less than two years ago, the auto maker has run through much of that. Company officials said Friday that the deep cuts in other areas will allow Ford to safeguard its \$7 billion-a-year budget for capital spending -- most of which goes to the new models that the company is counting on to pull it out of this crisis.

Increasingly, however, Wall Street is growing impatient with auto makers spending such massive sums to generate annual profits of only \$2 billion or so. GM, with its stock struggling even though the company appears to be near the top of its game, is slashing just about everything in its capital budget that isn't directly related to new models. "We went through excruciating pain to bring capital spending down," said Robert Lutz, GM's product chief. Although it produces about 20% more cars than Ford, GM will keep its capital expenses this year to near Ford's level, down about \$1 billion from the \$8 billion a year GM traditionally spent.

Executives concede Wall Street won't accept anything else. "We really have to improve our financial performance," said Mr. Devine, the GM finance chief. He says cuts in capital and other spending will remain the order of the day for the foreseeable future.

The Vehicles

PUBLIC VERSION

Ford earned record profits in the mid- to late 1990s in large part because it dominated the markets for SUVs and pickup trucks at a time when millions of Americans were switching out of conventional passenger cars into trucks. The original Ford Explorer midsized sport utility hit the market in 1990 with just the right mix of comfort, style and function -- and it took rivals nearly a decade to catch up. For years, Ford was able to sell Explorers without big discounts.

But the success of the Explorer formula made Ford reluctant to take risks with new models. Instead, Ford listened intently to what the consumers in its focus groups asked for: more features and more comfort. But when the new model, equipped with costly new features like independent rear suspension, hit the market last year, Ford found customers wouldn't pay up for the improvements and Ford had to resort to discounts.

Of course, the scandal over fatal rollovers linked to Firestone tires used on previous-generation Explorers hurt Ford by tarnishing the Explorer's once-golden image. But Ford's decision to close by mid-decade one of two factories that now build Explorers and sister vehicles such as the Mercury Mountaineer reflects broader challenges.

Ford is just one of many mass marketers struggling to keep up with increasingly fickle consumer tastes. **Gap** Inc. once ruled with khakis and jeans. Now Gap is struggling to rethink its formula amid disappointing sales. Entertainment companies and publishers are struggling with an audience that flocks to a big movie or bestseller when it's released and then hastily moves on to the next blockbuster.

In the auto industry, Ford and its rivals are getting whipsawed between the rapid shifts in consumer-fashion and product-development cycles that still last three or more years, in part because it takes that long to recoup the huge investments in tooling and engineering.

Ford's main rival in the truck market is GM, and for much of the 1990s the No. 1 auto maker was behind the curve in the truck business. GM's Chevy Blazer midsize SUV was no match for Ford's best-selling Explorer, which was such a huge hit that Ford dedicated two factories to building it and its Mercury Mountaineer variant.

But last year, GM launched new versions of its midsize SUVs, called the Chevrolet TrailBlazer and GMC Envoy, that posed a serious challenge to Ford's redesigned but more costly 2002 Explorer, also launched last spring. One asset GM's midsize SUVs took into the competition was a new inline six-cylinder engine that pumped out 270 horsepower, more than either the V-6 or V-8 engine offered in the Ford Explorer.

The Explorer also faced intense new competition from Japanese auto makers, mainly Toyota. At this week's big North American International Auto Show in Detroit, the Toyota display features an imposing lineup of five Toyota SUVs, arranged from the small RAV4 to the hulking Toyota Land Cruiser.

Ford itself has contributed to a major shift in consumer tastes by offering a lighter, more maneuverable and less expensive SUV alternative called the Ford Escape, which was derived not from a pickup truck, like the Explorer, but from a car. Sales of such "crossover" SUVs have in the past year grown faster than sales of truck-based vehicles like Explorer.

The competitive challenge to Ford's SUV franchise isn't going to stop soon. Honda is gearing up a new factory in Alabama that will allow it to build more midsize SUVs, including a model called the Honda

Pilot that will aim directly at the Explorer's core market of suburban families. **Nissan Motor** Co. next year plans to start production at a new factory in Mississippi, which will turn out a large SUV as one of its main products.

DaimlerChrysler's Chrysler Group, which let its Jeep Grand Cherokee and Dodge Durango SUVs get old as it struggled with management turmoil and deepening losses, now plans a wave of new vehicles aimed at SUV buyers. They include a stylish crossover vehicle called the Chrysler Pacifica that blends elements of SUV design, minivan space efficiency and sedan styling. The Pacifica is scheduled to hit the market early next year, well before Ford is expected to begin building a comparable vehicle at the factory in Chicago that builds Taurus sedans.

On Friday, Mr. Scheele, Ford's chief operating officer, responded to questions about the company's near-term product drought by showing a video that set a rapid parade of photos of future products to loud Euro-pop. In Europe, new vehicles such as the Mondeo sedan and Transit van, developed under a turnaround plan led by Mr. Scheele and Mr. Thursfield, have produced sales gains and a significant turnaround in financial results.

Mr. Ford said Friday he's confident the new product strategy developed by Mr. Scheele will deliver the promised \$7 billion in annual pretax profits by the middle years of the decade.

But for all that, Mr. Scheele's base assumption is that Ford will do well just to maintain the Ford brand's current 19% market share in the U.S. With Honda, Toyota and GM all vowing to drive for further market-share gains, many analysts are skeptical he can manage even that.

Investors appear to be hedging their bets. Ford shares closed up 21 cents at \$15.50 in 4 p.m. New York Stock Exchange composite trading Friday. But that gain didn't offset all of the stock's losses last week. Within the past year, Ford's market capitalization stood as high as \$56.9 billion. Now, the market values Ford at about half that much.

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